

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL



MIKE COX
ATTORNEY GENERAL

P.O. Box 30754
LANSING, MICHIGAN 48909

July 16, 2004

Clerk of the Court
Ingham County Circuit Court
Courthouse
Mason, MI 48854

Dear Clerk:

Re: *Linda A. Watters, Commissioner, Office of Financial and
Insurance Services v The Wellness Plan*
Ingham County Circuit Court No. 03-1127-CR

Enclosed for filing in the above-entitled case is the Rehabilitator's Response to the
Objections to the Petition for Approval of the Rehabilitator's Plan to Sell the Right to Serve the
Members of The Wellness Plan, along with Proof of Service.

Very truly yours,

A handwritten signature in cursive script, reading "William A. Chenoweth".

William A. Chenoweth
Assistant Attorney General
Insurance and Banking Division
Lansing, MI 48909
(517) 373-1160

Enc.

c: Hon. William E. Collette
Committee to Save The Wellness Plan
Joseph T. Aoun
David Whitaker
Lori McAllister
Eric J. Eggan

STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL CIRCUIT
INGHAM COUNTY

LINDA A. WATTERS, COMMISSIONER,
OFFICE OF FINANCIAL AND INSURANCE SERVICES
FOR THE STATE OF MICHIGAN,

Petitioner,

v

File No. 03-1127-CR

THE WELLNESS PLAN,
a Michigan health maintenance organization

Hon. William E. Collette

Respondent.

E. John Blanchard (P28881)
David W. Silver (P24781)
William A. Chenoweth (P27622)
Attorneys for Petitioner, Commissioner of
the Office of Financial & Insurance Services
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P.O. Box 30754
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**REHABILITATOR'S RESPONSE TO THE OBJECTIONS TO
THE PETITION FOR APPROVAL OF THE REHABILITATOR'S PLAN
TO SELL THE RIGHT TO SERVE THE MEMBERS OF THE WELLNESS PLAN**

On June 18, 2004, the Rehabilitator filed a petition for approval of the Rehabilitator's recommendation to sell the right to serve the members of The Wellness Plan (TWP) to Molina Healthcare of Michigan, Inc. (Molina) and McLaren Health Plan. The petition and the Court's scheduling order were served by mail and publication on interested persons. The Rehabilitator has received objections from five entities. They are: Midwest Health Plan, Inc., Total Health Care, Inc., Gambro Health Care, Inc., the Detroit City Council, and the Committee to Save TWP.

The following table summarizes the offers, recommendations, and objections county by county.

	<u>Molina Healthcare</u>	<u>Total Health Care</u>	<u>Midwest Health Plan</u>
<u>Oakland County</u> Rehabilitator recommended Molina. Total objected.	\$500,000 (assuming 4,092 members on Oct 1, that's \$122.19/member) 85% provider overlap	\$217/member (assuming 4,092 members on Oct 1, that's \$887,964) 15% provider overlap	No offer
<u>Macomb County</u> Rehabilitator recommended Molina. Total and Midwest objected.	\$400,000 (assuming 4,092 members on Oct 1, 2004 that's \$97.75/member) 85% provider overlap	\$217/member (assuming 4,092 members on Oct 1, 2004 that's \$887,964) 55% provider overlap	\$100/member (\$389,550 using the second scenario in Attachment 2) 36% provider overlap
<u>Wayne County</u> Rehabilitator recommended Molina. Only other bid from Pro Care. No objections to Molina.			
<u>Genesee/Lapeer</u> Rehabilitator recommended McLaren. Total and Molina also made offers for these counties. No objections to McLaren.			
<u>Muskegon/Oceana</u> Rehabilitator recommended Molina. Only other offer from Health Plan of Mich. No objections to Molina.			

The Rehabilitator makes the following response to the objections.

I. Midwest Health Plan, Inc.'s objection.

Midwest Health Plan, Inc. (Midwest) objects that its offer for TWP's members in Macomb County was higher than Molina's offer and therefore the Rehabilitator should have recommended that Midwest's offer be approved for the Macomb County members. Midwest argues that the Rehabilitator's comparison of Molina's level offer of \$400,000 and Midwest's per capita offer of \$100/member was mistaken because the Rehabilitator erroneously relied upon an incorrect enrollment number for Macomb County. Midwest asserts that using the enrollment number provided by the Michigan Department of Community Health (MDCH), Midwest's price is actually higher than Molina's.

Midwest is correct that the Rehabilitator's comparison was flawed. Midwest's offer for the Macomb County membership was \$100/member, while Molina offered a level price of \$400,000. In order to compare the two offers, the Rehabilitator divided Molina's \$400,000 purchase price by the Macomb enrollment of 3,264 reported in Molina's offer. That made Molina's price \$122.55/member, an amount higher than Midwest's \$100/member price. The problem is that the Macomb enrollment reported in Molina's offer was mistaken. According to the MDCH, TWP's actual enrollment in Macomb County was higher than the number Molina reported. Whether you use the enrollment numbers MDCH reported for June or the lower number MDCH reported for July, TWP's Macomb enrollment was higher than the number cited by Molina. At first glance then, Midwest's offer of \$100/member is higher than Molina offer, which works out to either \$87.20/member (based on the 4,587 members MDCH reported in June) or \$89.19/member (based on the 4,485 members DCH reported in July). But the comparison is more complicated than it appears at first.

The complication arises because both the Midwest and Molina offers are subject to an adjustment in the purchase price. The comparison is even more difficult because Molina and Midwest calculate the final price differently.

The Molina adjustment compares the enrollment numbers on the date the purchase agreement is signed to the enrollment on the date the members are actually transferred (presumably October 1). There is no adjustment if the membership declines by 15% or less. The price remains a level \$400,000. However, if the enrollment drops by more than 15%, Molina's price is reduced pro rata to the extent that the decrease exceeds 15%.

On the other hand, Midwest uses a different formula to adjust the price and different dates on which to measure the membership level. Under Midwest's offer, the full \$100/member price applies only to those members who are actually transferred to Midwest on the effective date (presumably October 1, 2004) **AND** who remain members of TWP 90 days later. The price for members who are transferred on the effective date but do **NOT** remain 90 days thereafter, is only \$50/member.¹

Because of these adjustments, we cannot know which offer will actually produce the highest price without knowing the actual enrollment numbers in Macomb County between now and December 31, 2004. Depending on the actual enrollment, Molina's price could be higher or Midwest's price could be higher. For example, between July 2003 and July 2004, TWP's

¹ Midwest confirmed the purchase price in a July 13, 2004 letter to counsel for the Rehabilitator as follows: "Midwest will pay an initial \$50 for each of The Wellness Plan's Macomb County members as of the day the offer is accepted. Thereafter, Midwest will pay an additional \$50 for each member that remains with Midwest for three months after the effective date of the new Medicaid contract." A copy of that letter is Attachment 1 to these responses.

membership in Macomb County dropped by 491.² That is an average decrease of 41 members/month. If TWP's membership were to fall at that same 41 member/month rate between now and January 2005, Midwest's price would be \$430,050, \$30,050 **HIGHER** than Molina's price of \$400,000. On the other hand, the rate of membership loss has increased in recent months. Between April 2004 and July 2004, TWP's membership in Macomb County dropped by 394 persons, a rate of 131 members/month. If TWP's membership were to fall at that same 131 member/month rate between now and January 2005, Midwest's price would be \$389,550 dollars, \$10,450 **LESS** than Molina's price of \$400,000.³

The impending transfer of TWP's membership may exacerbate the rate at which members leave TWP and the HMO which ultimately acquires the Macomb County members. Midwest's offer indicates that its provider network has a 36% overlap with TWP's Macomb County provider network. Molina's offer indicates a 37% overlap. This means that many current TWP members in Macomb County will have to choose a new primary care provider after the members are transferred because their current primary care provider is not a part of the acquiring HMO's network. They will, therefore, have less incentive to remain with the HMO that acquires TWP's membership and instead may opt for a new HMO. That suggests that the recent more rapid rate of decline in membership is likely to persist.

Because it is not possible today to determine what the membership will be in the next few months, it is not possible to determine with certainty which offer will be best when all is said and done. Yet it seems probable that the Midwest price adjustment formula exposes the

² These examples are based on the enrollment numbers from the MDCH as reported in Midwest's objections. See Exhibit 4 to Midwest's objections, the affidavit of Esther Reagan, page 3, ¶ 8.

³ These calculations are shown on Attachment 2 to these responses. They are based on the assumption that Molina executes its contract in July.

Rehabilitation estate to greater risk of price reductions because the Midwest formula reduces the purchase price for each and every member lost between now and December 31, 2004. The Molina formula, on the other hand, is more certain because the Rehabilitator should know the amount of the total Molina purchase price by the transfer date of October 1. There will be no further reduction in price based on any membership falloff after that date. Moreover, until the decrease in membership exceeds 15%, there is no reduction in the Molina purchase price at all.

Finally, selling the Macomb members to Midwest will force TWP to incur additional costs that will not be incurred if the Macomb members are sold to Molina. TWP will have to negotiate and execute a definitive purchase agreement with Molina to cover the members in Wayne, Muskegon/Oceana, and Oakland counties. There is negligible additional expense to include the Macomb County membership in that agreement. However, if the Macomb members are sold to Midwest instead of Molina, the Rehabilitator will incur the expense of negotiating and implementing another definitive purchase agreements with Midwest. The increased expense is made more significant because: (A) it is not clear whether the Molina or Midwest price will ultimately be higher and (B) the price difference will not likely be significant in any event.

Therefore, even acknowledging the flaw in the Rehabilitator's initial comparison of the offers of Molina and Midwest, the Rehabilitator respectfully recommends that Molina's offer is preferable to Midwest's offer for TWP's Macomb County membership. Although Midwest appears to have the financial ability to complete this transaction and has demonstrated its ability to provide health care services to its members, in the judgment of the Rehabilitator, the Molina offer is more likely than the Midwest offer to produce the higher price for the members and creditors of TWP and require less administrative expense. However, as explained in the following section, Total Health Care's offer for Macomb County is substantially higher than

either the Molina or Midwest offers. If Total Health Care, Inc. is awarded a Medicaid contract for Macomb County by the July 21, 2004 hearing date, the Rehabilitator recommends that Total be selected to purchase the right to serve TWP's Macomb County members.

II. Total Health Care Inc.'s objection.

As the Rehabilitator noted in her petition, Total Health Care, Inc. (Total) offered \$217/member for TWP's Oakland County membership. Assuming 8,500 Oakland County members, the total price would be \$1,844,500 for Oakland County. Total also offered \$217/member for TWP's Macomb County members. Assuming 4,800 Macomb County members, the total price would be \$1,041,000 for Macomb County. Total's offers greatly exceeded Molina's fixed offers of \$550,000 for Oakland County and \$400,000 for Macomb County. Although Total's offers were substantially higher, the Rehabilitator recommended that Molina's offer be accepted because MDCH did not select Total for a new Medicaid contract beginning on October 1, 2004. Obviously, without a Medicaid contract, Total cannot service TWP's members.

For reasons that it does not explain, Total contends in its objections that the decision of the Department of Management and Budget (DMB) Joint Evaluation Committee not to recommend a Medicaid contract for Total "was due to an administrative oversight, and not a substantive deficiency in Total's bid submission."⁴ Total asserts that it has filed a protest letter and expects to ultimately be awarded a Medicaid contract before the July 21 hearing on the Rehabilitator's petition to approve the sales of TWP's membership.

The Rehabilitator decided not to recommend Total's offer for the Oakland and Macomb membership solely because MDCH did not award Total a Medicaid contract. However, the

⁴ Total's objections, pp 4 to 5.

Rehabilitator has learned that in response to Total's protest, it was been awarded a Medicaid contract for Macomb, but not Oakland Counties. Therefore, assuming that the Administrative Board actually approves the award of a Medicaid contract to Total for Macomb County by July 21, 2004, the Rehabilitator recommends that the Court approve the sale of TWP's Macomb County members to Total. In light of the fact that Total was not awarded a contract for Oakland County, the Rehabilitator reaffirms her recommendation that the Court approve the sale of TWP's Oakland County members to Molina.

III. The objection of Gambro Healthcare, Inc. that it has not been paid for post-rehabilitation claims and that the Rehabilitator has failed to provide sufficient information is not true and is otherwise irrelevant to this proceeding.

Gambro Healthcare, Inc. ("Gambro"), objects that the Rehabilitator's plan to sell the right to serve the members of TWP should not be approved until such time that Gambro has been paid for dialysis services that it provided to TWP members after TWP entered rehabilitation on July 1, 2003. Gambro asserts that it is owed \$337,569 for dialysis services that were provided during the post-rehabilitation period.

We have been informed by the Deputy Rehabilitator that Gambro has, in fact, been paid in excess of \$300,000 for post-rehabilitation services and some \$50,000 of other claims are pending review. However, payment of post-rehabilitation claims is simply not an issue before the Court today. The Court has set this time aside to hear the Petition for Approval of the Rehabilitator's Plan to Sell the Right to Serve the Members of TWP. It is simply not relevant to that determination whether Gambro has been paid for dialysis services. It would make no sense at all to hold up the proposed sale, which benefits all TWP's creditors, in order to resolve a claims dispute with one of thousands of providers.

If Gambro has encountered difficulty in obtaining payment for valid claims, there are three levels of procedures to address disputed claims payment issues. First, there is an internal review process within TWP. Second, the Commissioner of the Office of Financial and Insurance Services has the power to investigate and review the timely payment of claims, as provided for in Section 2006 of the Insurance Code, MCL 500.2006. Finally, there is an appeals procedure before MDCH. Gambro has not availed itself of any these procedures to resolve its claims dispute. The Rehabilitator is willing to work with Gambro in seeking to resolve any differences over any outstanding unpaid claims.

Gambro's objection suggests that payment of its post-rehabilitation claim ought to have a higher priority over payment of other claims against TWP. However, Section 8142 of the Insurance Code, MCL 500.8142, sets forth nine classes of claims and their relative priority in a liquidation and expressly provides that: "Subclasses shall not be established within a class." MCL 500.8142(1). In any event, the time to determine the priority of claims is when TWP is finally liquidated.

Accordingly, the objection raised by Gambro should be put aside and dismissed.

IV. The objection of the Detroit City Council should be disregarded because the city council has no standing in this proceeding, and has raised no issue that is properly before this Court.

The Detroit City Council has filed an objection to the Rehabilitator's Plan to Sell the Right to Serve the Members of The Wellness Plan alleging it has standing to file an objection merely because a significant number of the State's Medicaid-eligible patients live in the City of Detroit. The undisputed fact that many Medicaid eligible patients happen to live in the City of Detroit does not, in itself, confer standing upon the City Council as a representative of those persons. The Detroit City Council points to no authority holding that it has standing in this

proceeding. The Detroit City Council does not assert that it is a creditor of TWP, that it has a contract with TWP, or that it is a provider of services to TWP. The creditors of TWP, its medical providers, and vendors have standing in this proceeding, not a home rule city.

The MDCH has the legal responsibility to provide health care services to individuals and families that qualify for Medicaid benefits. MDCH fulfills its responsibility to provide health care benefits to eligible recipients in the City of Detroit and elsewhere in Michigan by entering into contracts with various health plans to provide those medical services. The MDCH enters contracts with health plans for a county-wide service area. MDCH has contracted with various health plans, such as The Wellness Plan, OmniCare Health Plan, and Total Health Care, to provide Medicaid benefits to eligible residents in Wayne County, many of whom are residents of the City of Detroit.

Although DMB and MDCH entered into these contracts with TWP and others in 2000, neither DMB nor MDCH dictated the rate paid to the HMOs. The management of each HMO determined the appropriate rate when they bid for those contracts. Moreover, the HMOs were required to provide an actuarial opinion with their submission indicating the rates they bid were actuarially sound. TWP submitted its own cost numbers to MDCH for the reimbursement amount that it believed it could provide medical services to its members. MDCH awarded the contract to TWP based on the requested reimbursement and fees that were submitted by TWP. It is unfair and erroneous for the Detroit City Council to assert that the State has failed to adequately fund Medicaid reimbursement to TWP. The State has paid TWP at the rate that TWP bid. The rates that TWP has received during the current contract period are not the lowest rates among the participating health plans. Although the rates have not increased since 2000, other participating health plans have been able to remain financially viable, and in many cases at least

marginally profitable. TWP finds itself before this Rehabilitation proceeding largely as a result of its own decisions and failure.

This year the DMB, on behalf of MDCH, has re-bid the state Medicaid contracts for the 2004-2006 period. MDCH set the criteria for the new contract. The Rehabilitator did not make the decision to re-bid these contracts, and the Rehabilitator did not set the qualification standards for the new contract. However, the Rehabilitator has had to respond to the reality of the re-bid process. Part of that reality is that MDCH did not award a new contract to TWP, thus making it impossible for TWP to continue as an on-going entity.

MDCH will continue to fulfill its obligation to provide Medicaid benefits to eligible recipients in Wayne County and the City of Detroit, even though those services will be provided by health plans other than TWP. MDCH has awarded a contract to Molina Healthcare of Michigan. Since TWP did not qualify for and did not receive a new Medicaid contract, the Rehabilitator has no alternative but to try to maximize the value of the assets of the estate and try to ensure the continuity of care to the greatest extent possible. The Rehabilitator has fulfilled this obligation by selecting Molina to acquire the rights to serve the members of TWP in Wayne County. Although the health plan arranging for Medicaid health care services will change, the members will continue to receive medical care from local providers in the community.

The City of Detroit alleges that the selection of Molina Healthcare of Michigan somehow violates Executive Directive 2004-3, which requires the DMB to provide a preference for products manufactured or services offered by Michigan-based firms. It was MDCH's decision to award a new Medicaid contract to Molina. The Rehabilitator did not make that decision. MDCH is not before this Court to explain or defend its decisions. Nevertheless, the Rehabilitator can represent to the Court that Molina Healthcare of Michigan, Inc. is incorporated

in Michigan as a business corporation under Michigan law, as required by the Insurance Code. Molina Healthcare of Michigan has offices in Michigan and employs a number of Michigan residents. While it is true that Molina Healthcare of Michigan is a subsidiary of Molina Healthcare, Inc., a California-based company, the purchaser of the right to serve the members of TWP is a Michigan-based firm.

It is unfortunate that the Detroit City Council has chosen to raise a red herring, by suggesting falsely that the financial failure of TWP is somehow "part of a scheme that will divest Detroit businesses and City residents of the opportunity to serve and be served by members of their own community" and "the latest salvo in the ongoing effort to disenfranchise our community." Further, the Detroit City Council makes the assertion, without even a scintilla of evidence or foundation, that Molina Healthcare of Michigan has "no interest in the 89 percent African-American population of the City of Detroit."

Molina Healthcare has a history of care for and sensitivity to minority populations. Over 20 years ago, the late Dr. C. David Molina, a man of Mexican heritage, founded the company to address the special needs of Medicaid patients. Even today, as a publicly-traded investor owned company, the Molina family retains majority ownership in the company. Molina Healthcare ranks as the 6th largest Hispanic business in America, according to *Hispanic Business Magazine*. It is simply a fabrication to assert that Molina Healthcare has no interest in or concern for minority communities.

For all the reasons stated, the Court should not give any credence or consideration to the objection filed by the Detroit City Council. The objection should be dismissed.

V. The objection of the Committee to Save TWP should be dismissed because the committee is an ad hoc unincorporated association with no standing in this proceeding, and has not raised any issue that is properly before this Court.

The Court has received an objection submitted by an ad hoc unincorporated association calling itself the Committee to Save TWP ("Committee"). The Committee does not have standing in this proceeding, and has no representative capacity for Medicaid recipients in Detroit or anywhere else. The creditors of TWP, its medical providers, vendors, and commercial members are the parties that have standing in this proceeding, not an ad hoc committee.

The Committee alleges that TWP is financially sound, and should be released from rehabilitation. However, the Committee has failed to present or cite any credible evidence that would support this bald assertion. In fact, as reported by TWP in its financial reporting requirements with the Office of Financial and Insurance Services, TWP is not in compliance with its statutory financial requirements. MDCH determined that TWP did not satisfy its financial eligibility requirements when it did not award a new Medicaid contract to TWP.

The Committee makes a rather astounding allegation in its objection that a monetary bonus "as much as ten million dollars" was awarded to eoshealth at the end of the first quarter of 2004. This is simply untrue. Eoshealth is the Deputy Rehabilitator appointed by the Rehabilitator with the court's approval. Eoshealth is compensated pursuant to a compensation agreement that was approved by this Court. The compensation agreement contains an incentive payment provision that is earned when there is measurable improvement to TWP financial status. In truth and fact, Eoshealth received a bonus payment based on the performance of TWP during the first quarter 2004 in the amount of \$1.6 million. This payment was earned according to the compensation plan previously approved by this Court.

The Committee also correctly points out that TWP earned \$7.9 million in the first quarter 2004. What the Committee does not reveal is that a significant portion of that "profitability"

actually came from reductions in claim reserves, and a new receivable being booked. The true ongoing profitability or "run rate" of TWP is unclear because of these one-time positive adjustments to the books of TWP.

Unfortunately, given the fact that TWP was not granted a renewal of its Medicaid contract, there is no way to preserve or save TWP. TWP's primary asset, its Medicaid contract, will cease to exist on October 1, 2004. It is incumbent upon the Rehabilitator to make provision for the members of TWP so that continuity of health care for these Medicaid recipients will continue uninterrupted. The Rehabilitator has acted responsibly in recommending the sale of the right to serve TWP members to other health care plans that received the necessary Medicaid contract from MDCH.

The objection of the Committee to Save TWP should be dismissed.

VI. CONCLUSION AND RELIEF SOUGHT

For all of these reasons, the Rehabilitator respectfully requests that the Court approve the sale of the right to serve the members of The Wellness Plan as follows:

1. Oakland County to Molina.
2. Macomb County to Total.
3. Wayne County to Molina.
4. Genesee/Lapeer Counties to McLaren.
5. Muskegon/Oceana to Molina.

Respectfully submitted

Michael A. Cox
Attorney General

A handwritten signature in black ink, appearing to read "William A. Chenoweth", with a long horizontal flourish extending to the right.

E. John Blanchard (P28881)
William A. Chenoweth (P27622)
David W. Silver (P24781)
Assistant Attorneys General

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Dated: July 16, 2004

HONIGMAN

Honigman Miller Schwartz and Cohn LLP
Attorneys and Counselors

Eric J. Eggan

(517) 377-0726
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eeeggan@honigman.com

July 13, 2004

VIA HAND DELIVERY

William A. Chenoweth
Assistant Attorney General
Insurance and Banking Division
G. Mennen Williams Building, 7th Floor
525 West Ottawa
Lansing, Michigan 48909

Re: Midwest Health Plan, Inc. Objections to Rehabilitator's Plan to Sell the Right to Serve Macomb County Members of the Wellness Plan

Dear Bill:

Thank you for contacting me on July 12, 2004 to discuss Midwest Health Plan's (Midwest) objection to the rehabilitator's plan to sell the right to serve Macomb County Members of The Wellness Plan.

During our conversation, you asked for my thoughts on the terms of Midwest's proposal. Specifically, you asked about Midwest's offer to purchase the Macomb membership for \$100 per member and what the offer proposed in terms of persons leaving the plan within 90 days of the rehabilitator's acceptance of Midwest's proposal.

In my view, Midwest's offer is clear -- it is not a contingent offer. The Purchase Price provision at paragraph B on page 2 of the agreement is consistent with the language at paragraph 8 on page 4 of the agreement. Both provisions state Midwest's offer -- \$100 per member. The \$100 per member offer is, under the proposal, paid as follows: Midwest will pay an initial \$50 for each of The Wellness Plan's Macomb County members as of the day the offer is accepted. Thereafter, Midwest will pay an additional \$50 for each member that remains with Midwest for three months after the effective date of the new Medicaid contract.

To compare this per member purchase offer with the \$400,000 fixed price offer (absent its contingencies) submitted by Molina Healthcare of Michigan (Molina), it is necessary to perform some mathematical calculations. The Wellness Plan's Macomb County enrollment in June 2004 was 4,587. This is the most recent enrollment data available since the Michigan Department of Community Health has not yet released numbers for July. An initial payment by Midwest of \$50 per member would therefore be \$229,350 (4,587 members times \$50). If all of these members remain with the plan until the end of three months following the effective date of the new Medicaid contract, an additional \$229,350 would be paid, bringing the total payment from Midwest for the right to serve The Wellness Plan's Macomb County members to \$458,700.

HONIGMAN

William A. Chenoweth

July 13, 2004

Page 2

It is, however, likely that some of the members will choose to join other plans during the three-month period so the potential rate of attrition must be considered in the calculation of the second payment. If 10% of the members choose another plan, the second payment would be reduced to \$206,400 (4,587 members minus 459 members equals 4,128, and 4,128 times \$50 is \$206,400). The sum of \$229,350 and \$206,400 is \$435,750. Likewise, if 20% of the members choose another plan, the second payment would be reduced to \$183,500 (4,587 members minus 917 members equals 3,670, and 3,670 times \$50 is \$183,500). The sum of \$229,350 and \$183,500 is \$412,850. The same calculation could be made with a 25% loss of members and the total payment, at \$401,350, would still exceed the Molina purchase offer of \$400,000.

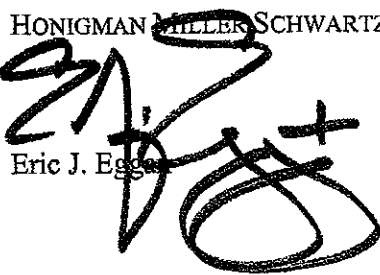
It should be noted, however, that at the time both purchase offers were submitted the June enrollment numbers were not yet available, and if the May enrollment number of 4,828 is used instead in the above calculations, the total payment from Midwest with no members leaving the plan would be \$482,800, and an attrition rate of more than 34% would be required before the Molina purchase offer would exceed that of Midwest.

This said, the potential rate of attrition must be addressed. As we know, The Wellness Plan has been in financial difficulties for a long time, and in rehabilitation for about a year. During this time, there has been member attrition in Macomb County. The table included in the affidavit of Esther Reagan, submitted with Midwest's Objection, reflects an attrition rate of about 6% during the six-month period from December 2003 to June 2004, and 16% during the twelve-month period from June 2003 to June 2004. Accordingly, an attrition rate exceeding 25% in the next few months appears unlikely, especially since Midwest and The Wellness Plan share many of the same network providers.

I trust that this explanation satisfies your needs. Please do not hesitate to contact me if you have further questions.

Very truly yours,

HONIGMAN ~~MILLER~~ SCHWARTZ AND COHN LLP


Eric J. Eggen

LAN_A.128240.1

ATTACHMENT 2

	A	B	C	D	E	F	G	H	I
1									
2	If TWP loses members at the average over the past year.								
3	Membership July 2003	4,976							
4	Membership July 2004	4,485				Month	DCH enrollment numbers		
5	difference	491				July 2003	4,976		
6	ave/month	41				Aug 2003	4,902		
7						Sept 2003	4,857		
8	projected enrollment					Oct 2003	4,834		
9	July 2004	4,485				Nov 2003	4,851		
10	August 2004	4,444				Dec 2003	4,867		
11	September 2004	4,403				Jan 2004	4,845		
12	October 2004	4,362				Feb 2004	4,958		
13	November 2004	4,321				March 2004	4,938		
14	December 2004	4,280				April 2004	4,879		
15	January 2005	4,239				May 2004	4,828		
16						June 2004	4,587		
17	Molina's price	\$400,000	July to Oct decline	2.74%		July 2004	4,485		
18	Midwest's price	\$430,050	July thru Dec decline	5.48%					
19	difference	\$30,050							
20									
21									
22	If TWP loses members at the average over the past three months								
23	July 2004	4,485							
24	April 2004	4,879							
25	difference	394							
26	average/month	131							
27									
28	projected enrollment								
29	July 2004	4,485							
30	August 2004	4,354							
31	September 2004	4,223							
32	October 2004	4,092							
33	November 2004	3,961							
34	December 2004	3,830							
35	January 2005	3,699							
36									
37	Molina's price	\$400,000	July to Oct decline	8.76%					
38	Midwest's price	\$389,550	July thru Dec decline	17.53%					
39	difference	\$10,450							

STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL CIRCUIT
INGHAM COUNTY

LINDA A. WATTERS, COMMISSIONER,
OFFICE OF FINANCIAL AND INSURANCE SERVICES
FOR THE STATE OF MICHIGAN,

Petitioner,

v

File No. 03-1127-CR

THE WELLNESS PLAN,
a Michigan health maintenance organization

Hon. William E. Collette

Respondent.

PROOF OF SERVICE

The undersigned certifies that on July 16, 2004 she served a copy of the Rehabilitator's Response to the Objections to the Petition for Approval of the Rehabilitator's Plan to Sell the Right to Serve the Members of The Wellness Plan upon objectors by depositing same in the city of Lansing, Michigan, enclosed in an envelope bearing postage fully prepaid, plainly addressed as follows:

Committee to Save The Wellness Plan
18400 Lesure
Detroit MI 48235

David Whitaker, Interim Director
Research and Analysis Division
City Council
216 Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit MI 48226

Eric J. Eggan
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